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C O N F I D E N T I A L BUDAPEST 000225

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TO NSC JEFF HOVENIER AND KHELGERSON

E.O. 12958: DECL: 03/22/2014

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SUBJECT: PM GYURCSANY'S NO CONFIDENCE OFFER - SINCERE OR
BLUFF

REF: 08 BUDAPEST 1143

Classified By: Acting P/E Counselor Jon Martinson, reasons 1.4(b,d)

11. (U) Summary. Prime Minister Gyurcsany's surprising intention to step down from his post following a planned constructive vote-of-no-confidence on April 14 adds further heat to the already polarized political environment. While Viktor Orban's opposition party Fidesz and the small Hungarian Democratic Forum (MDF) are pushing to dissolve Parliament and hold early elections, the Free Democrats (SzDSz) say they are willing to discuss potential PM candidates. Over the next two weeks, the ruling Socialist party (MSzP) will hold discussions about potential candidates with opposition parties, hoping to garner the necessary support needed to pass the no-confidence motion. The list of potentials floating in the news includes mostly technocrats with strong financial management skills. Although Gyurcsany states he will definitely step down as Prime Minister, skeptics see his offer as a bluff designed to increase support for the Socialists prior to the European Parliamentary elections in June. End summary.

THE ROAD TO A CONSTRUCTIVE NO-CONFIDENCE MOTION

12. (C) As Gyurcsany announced during the Socialist Congress on March 21 (septel) and confirmed in a TV interview on March 22, the MSzP will begin a search for a new Prime Ministerial candidate and immediately start negotiations with other parties. Following a new MSzP party Congress scheduled for April 5, during which they will endorse a candidate, the party can then move forward with a constructive no-confidence motion. The motion requires 78 MP signatures and will be submitted to Parliament on April 6. Pursuant to Parliamentary rules, the MPs must vote on the motion no earlier than three days and no later than eight days after submission, setting Tuesday, April 14, following the Easter holiday, as the last possible date for a vote. (Comment. Although Gyurcsany surprised the public with his announcement to step down, a senior MSzP member told Emboff on March 21 that Gyurcsany called SzDSz President Gabor Fodor prior to Saturday's Socialist Congress to discuss the PM's plans and take the pulse of SzDSz support for a new Prime Minister. End comment.)

13. (SBU) Parliament voting on a constructive

vote-of-no-confidence for a new Prime Minister requires only a simple majority. If the motion does not pass, then Gyurcsany would remain as the PM. If the motion passes, the new Prime Minister selects his Cabinet Ministers; these, however, do not require Parliamentary approval. (Comment. The constructive no-confidence motion allows MSzP to control the events, keeping President Solyom from playing a role, as the Constitution gives the President no official say with a constructive no-confidence motion. End comment.)

FIDESZ - DISSOLVE PARLIAMENT AND NEW ELECTIONS!

¶4. (C) The largest opposition party Fidesz and the smaller conservative right-wing Christian Democratic Party (KDNP) are adamantly calling for new elections. While both Fidesz and KDNP have publicly stated that they are not willing to discuss a new Prime Ministerial candidate, the Free Democrats (SzDSz) and Hungarian Democratic Forum (MDF) stated they are both open to the proposal. (Comment. Interestingly enough, Fidesz, KDNP, SzDSz and MDF have enough votes together to elect a new Prime Minister without the Socialists. However, as these four parties are very unlikely to agree on a candidate, the most likely scenario is an MSzP/SzDSz agreement, which would pass the 194 vote simple majority threshold. With such an agreement, SzDSz would gain a significant bargaining role, potentially much larger than its

current 19 MPs would suggest. SzDSz President Gabor Fodor declared that he does not want to reenter a coalition with MSzP. However, he is ready to talk about potential PM candidates and programs that would be acceptable for the

party. End comment.) The MDF is apparently out of the talks as top MSzP officials declared that MDF protege Lajos Bokros would get support for being the next PM. At the same time, public unrest cannot be ruled out. Street demonstrations and/or strikes could happen and may force early elections sooner or later.

¶5. (SBU) On March 23 Fidesz attempted to place a motion on the agenda to dissolve Parliament. While the motion did not make it out of committee, Parliament would need a four-fifths majority of MPs present to put it on the agenda, and then a simple majority to dissolve the legislature. (Comment. If Parliament dissolves, the President of the Republic has to set a date for new elections to be held within three months. As both MSzP and SzDSz did not support the initiative, not even the unanimous vote of all other parties (Fidesz, KDNP, MDF) would be enough to pass the motion. During a March 22 TV interview, SzDSz President Fodor stated that new elections would cost another five months before Hungary could seriously address the economic crisis and "we can not afford that." End comment.)

¶6. (U) During the March 23 parliamentary session, Fidesz MPs, including party President Orban, remained at their seats when the Prime Minister spoke - breaking their "tradition" since 2006 of walking out whenever the PM addressed Parliament. Responding to Prime Minister Gyurcsany's restatement of his intent to resign, Fidesz faction leader Tibor Navracsics called Gyurcsany's speech during the March 21 Socialist party Congress the "most shameful ever," and referred to the MSzP's attempt to appoint a new PM as a "dirty game." However, SzDSz President Fodor called Gyurcsany's offer to resign as a "courageous move, and now is the time to put an end to the agony."

POTENTIAL PM CANDIDATES

¶7. (U) Press reports and our contacts suggest the following four financial experts as potential Prime Minister candidates.

- Dr. Gyorgy Suranyi

Dr. Suranyi twice served as governor of the National Bank of Hungary (MNB) (1990-1991 and 1995-2001) and is currently the Central European director for Banca Intesa group. Considered one of the giants of Hungarian economic policy, Suranyi served as National Bank Governor during the implementation of Hungary's structural economic reforms of the mid-1990s. Suranyi has earned a reputation for independence because of his willingness to stand up for both major parties, and he has served in public positions under both FIDESZ and Socialist governments. Suranyi has recently argued that Hungary's fundamental economic problems stem from a "crisis of trust" in the world's economic system, Hungary's political leadership, and in the health of the Hungarian economy. Suranyi is a strong proponent for greater action on the part of the European Central Bank (ECB) in establishing swap facilities and providing other assistance to non-eurozone countries, but in the past has opposed hasty and unprepared entry into the eurozone.

- Gordon Bajnai

Minister for National Development and Economy in the current government, Gordon Bajnai appears to be among Prime Minister Gyurcsany's favored candidates to replace him. With a solid business background (primarily in the area of international investment and finance), Bajnai has been a proponent of structural economic reforms to enhance Hungary's international competitiveness. Born in 1968, Minister Bajnai does not have extensive prior government service, however, previously serving only as Minister for Local Governments and Regional Development and Government Commissioner for Development Policy. However, as the least popular politician according to public opinion polls, Post views Bajnai's candidacy as very unlikely.

- Lajos Bokros

Although initially thought to be a leading candidate to replace Prime Minister Gyurcsany, Dr. Bokros, lack of support from many members of the Socialist party makes many believe that his chances of succeeding Gyurcsany are limited.

Former Finance Minister and Managing Director of the National Bank, Dr. Bokros is best known for the famous "Bokros Package" of structural economic reforms of the mid-1990s. In the past few years, Bokros served as professor and Chief Operating Officer at the Central European University. He has recently become a leading proponent for structural economic reform (reftel), and was selected to head the Hungarian Democratic Forum's (MDF) candidate list for the European Parliamentary elections.

- Andras Simor

Andras Simor currently serves as Governor of the Hungarian National Bank (MNB), and formerly served as Chairman of the Budapest Stock Exchange and as Chairman and Managing Partner of Deloitte Hungary. Over the course of his career he has held several positions in MNB, as well as senior positions at a number of investment banking and securities firms. Many credit Simor's performance as National Bank Governor with helping Hungary weather its current economic crisis, although he has faced some criticism lately for monetary policies that fail to more actively protect the value of the forint. Although his position as National Bank Governor limits his ability to directly advocate for fiscal and structural reforms, Simor has been increasingly vocal in calling for reforms to reduce Hungary's macroeconomic vulnerabilities and increase the country's competitiveness (reftel). Simor commented at a press conference on March 23 that no one has contacted him and furthermore, he would not be interested in the position.

18. (C) Comment. Gyurcsany's surprise offer to resign is viewed by the opposition as a bluff, designed to enhance the standing of the Socialists in upcoming EP elections. The move does present a challenge, in particular for Fidesz, as they have been demanding Gyurcsany's resignation since the

2006 elections. If the constructive no-confidence motion fails, Gyurcsany could make the argument that he offered, but the opposition would not agree to what they have been demanding. Perhaps more worrisome, the extreme-right Jobbik party is calling for citizens to take to the streets to demand new elections, and Party President Gabor Vona called upon Fidesz to join the demonstrations - a dilemma for Fidesz who continues to demand early elections, but walks a fine line in distancing itself from Jobbik and the extreme right. We will watch closely as the events play out in Parliament and on the streets over the next several weeks. End comment.
Foley